CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
GLOBAL FIXED INCOME PROGRAM

May 12, 2008

This policy is effective immediately upon adoption and supersedes all previous Global Fixed Income Program, Dollar-Denominated Fixed Income Program, Externally Managed Active International Fixed Income Program, and Foreign Debt policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the Global Fixed Income Programs ("GFI Programs"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the GFI Programs. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the GFI Programs.

This Policy is the controlling document for the following Programs:

A. Attachment A – Dollar-Denominated Fixed Income Program (Domestic Program);

B. Attachment B – Externally Managed Active International Fixed Income – (International Program); and

C. Attachment C – Foreign Debt Policy

II. STRATEGIC OBJECTIVE

The Programs shall be managed to accomplish the following:

A. Diversify CalPERS overall investment programs;

B. Dampen the overall risk of CalPERS' investment programs; and

C. Enhance CalPERS' total returns.

III. RESPONSIBILITIES

A. CalPERS' Investment Staff ("Staff") is responsible for the following:

1. All aspects of portfolio management and oversight including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Reporting on the performance and risk metrics for each individual Program to the Committee, at least annually for externally managed, and quarterly for internally managed GFI Programs.

3. Monitoring internal and external managers in the implementation of, and compliance with, the Policy. Staff shall report, concerns, problems, material changes, and all violations of Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

B. The General Pension Consultant ("Consultant") is responsible for:

Monitoring, evaluating, and reporting at least annually, to the Committee, on the performance of the GFI Programs relative to the appropriate benchmarks and the Policy.

C. For those GFI Programs managed by an External Manager(s) ("Manager(s)"), the Manager is responsible for all aspects of portfolio management and shall also fulfill the following duties:

1. Communicate with Staff as needed regarding investment strategy and investment results.

2. Monitor, analyze, and evaluate performance relative to the agreed upon benchmark.

3. Cooperate fully with CalPERS' Staff, Custodian, and Consultant concerning requests for information

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The specific performance objective and benchmark for each GFI Program is detailed in the appropriate attachment.

V. INVESTMENT APPROACHES AND PARAMETERS

The specific Investment Approaches and Parameters for each GFI Program are detailed in the appropriate attachment.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' Custodian, unless otherwise provided in attachments.

VII. GLOSSARY OF TERMS

Key words used in the policy and attachments are defined in CalPERS' Master Glossary of Terms.

Global Fixed Income Program
Approved by the Policy Subcommittee: April 21, 2008
Adopted by the Investment Committee: May 12, 2008

The following attachments were previously individual policies and are now consolidated into the Global Fixed Income Program policy. The dates below reflect the revision history for each document

Attachment A – Dollar-Denominated Fixed Income Program:

Approved by the Policy Subcommittee:	September 14, 2001
Adopted by the Investment Committee:	November 13, 2001
Revised by the Policy Subcommittee:	September 10, 2004
Approved by the Investment Committee:	October 18, 2004
Revised by the Policy Subcommittee:	September 16, 2005
Approved by the Investment Committee:	October 17, 2005
Revised by the Policy Subcommittee:	December 14, 2007
Approved by the Investment Committee:	February 19, 2008

Attachment B – Externally Managed Active International Fixed Income:

Approved by the Policy Subcommittee:	August 11, 1999
Adopted by the Investment Committee:	October 18, 1999
Revised by the Policy Subcommittee:	June 11, 2004
Approved by the Investment Committee:	August 16, 2004
Revised by the Policy Subcommittee:	September 16, 2005
Approved by the Investment Committee:	October 17, 2005
Revised by the Policy Subcommittee:	April 13, 2007
Approved by the Investment Committee:	May 14, 2007

Attachment A

DOLLAR-DENOMINATED FIXED INCOME PROGRAM

May 12, 2008

I. PERFORMANCE OBJECTIVE AND BENCHMARK

The performance objective for the Dollar-Denominated Fixed Income Program ("Domestic Program") is to exceed the return of the Lehman Brothers Long Liabilities Index ("LLL Index") while maintaining a high level of diversification.

The benchmark for the Domestic Program shall be the LLL Index, which was developed by CalPERS and Lehman Brothers to reflect the long liability nature of CalPERS.

II. INVESTMENT APPROACHES AND PARAMETERS

A. Investment Approach

Staff will identify opportunities across bond market sectors and invest where risks are both understood and manageable while complying with specifications in this Policy. Corporate, sovereign, and mortgage-backed securities may receive a greater allocation than the LLL Index given the higher return expectations. Studies indicate that optimal sector allocations in fixed income favor corporate and mortgage-backed securities over U.S. Treasuries and Agencies relative to the LLL Index. These studies, along with CalPERS' low liquidity needs, serve as the foundation for a strategy that sacrifices the quality and liquidity of U.S. Treasuries for higher returning corporates, mortgages, and sovereigns. Low liquidity requirements are derived from the high positive cash flow of the current allocation (when including income from investments). Equally important for management of the Domestic Program is flexibility in managing durations. In general, the program is expected to remain duration-neutral to the LLL Index unless real returns and economic analysis dictate otherwise. This flexibility is expected to add value versus a passive approach.

B. Specific Risk Parameters

CalPERS shall manage the following major categories of fixed income risk:

1. Benchmark Risk was reviewed by the Consultant who determined that the LLL Index is the appropriate reference point.

2. Interest Rate Risk must be controlled using duration management. Duration shall be maintained at ±20% of the LLL Index on an option-adjusted basis. Decisions shall be managed using historical real return relationships and economic analysis.

3. Yield Curve Risk must be managed in a controlled, disciplined fashion by monitoring key rate durations and principal component analysis.

4. Convexity Risk must be managed using option-adjusted and scenario analyses.

5. Sector Risk must be controlled using the ranges below. Based on the economic outlook, historical factors, and break-even analysis, Staff shall estimate the impact on various sectors' spreads and make allocations accordingly.

   Sector Ranges- The following are ranges by which actual allocations can fluctuate from the benchmark sector weightings:

   TOTAL DOMESTIC PROGRAM WEIGHTINGS

Sector	LLL Index	Permitted Sector Ranges
U.S. Treasury & Government Sponsored	40%	0% - 80%
Mortgage	30%	10% - 60%
Corporate	24%	10% - 50%
Opportunistic	3%	0% - 20%
Sovereign	3%	0% - 15%
Total	100%	N.A.

6. Credit Risk must be controlled by requiring minimum ratings by sector as outlined below in Section II.B.6.a-d. Credit Risk must be actively managed on a risk/return basis. A downgrading of a security, which causes a violation of the guidelines, shall not require an immediate sale if the Senior Investment Officer of Global Fixed Income determines that no further risk of credit deterioration exists or the sale diminishes the total return to CalPERS. The CalPERS' internal research staff and the external rating agencies shall analyze such situations to ensure that an informed decision is made. The following is the minimum quality for each of the sectors.

a. Treasury & Government Sponsored

Interest rate swaps are allowable and excluded from the minimum credit calculation. All swaps must comply with Section III.A.

b. Investment Grade Corporate

1) Holdings in the investment grade corporate sector shall, at a minimum, be rated investment grade by a recognized credit rating agency (at least Baa3 by Moody's or BBB- by S&P or by Fitch Ratings). This sector includes both domestic and foreign U.S. dollar and hedged into U.S. dollars public utilities, transportation, industrials, and bank and finance companies.

2) Non-rated bonds must receive an investment grade rating (BBB- or above) from the CalPERS internal research staff at the time of purchase. The CalPERS' internal research staff shall review at least annually all corporate issuers, where the investment decision was driven by the attractiveness of the individual issuer. Where the investment in corporate bonds is driven by a favorable macro-view of the corporate sector versus either Treasuries or mortgages, the annual review of issuers shall not apply, as credit risk shall be managed through extensive issue diversification and industry constraints to minimize event and idiosyncratic risk.

3) The corporate sector may include credit mortgages. All credit mortgages must receive an investment grade rating (BBB- or above) from the CalPERS' internal research staff at the time of purchase and shall be reviewed at least annually.

4) Investment grade Local Currency debt of corporations must meet the requirements of the Foreign Debt Policy (Attachment C).

c. Mortgage

1) Holdings in the mortgage sector must at a minimum be rated investment grade by a recognized credit rating agency (at least Baa3 by Moody's or BBB- by S&P or

by Fitch). This category includes mortgage-backed and asset-backed securities. Additionally, it includes commercial mortgages where the primary focus for rating purposes is the underlying collateral and leases.

2) Non-rated bonds must receive an investment grade rating (BBB- or above) from the CalPERS' internal research staff at the time of purchase. Staff shall review each investment at least annually.

d. Sovereign

1) Holdings in the sovereign sector must at a minimum be rated investment grade by a recognized credit rating agency (at least Baa3 by Moody's or BBB- by S&P or by Fitch Ratings).

2) All sovereign securities must be U.S. dollar-denominated or non-dollar securities hedged into U.S. dollars. All holdings must meet the requirements of the Foreign Debt Policy (Attachment C).

7. Structure Risk must be managed using option-adjusted scenario and prepayment analysis.

8. Reinvestment Risk must be managed through call risk and cash flow analysis.

9. Liquidity Risk is reduced due to CalPERS' strong cash flow.

10. Currency Risk is reduced by requiring all securities to be denominated or hedged into U.S. dollars.

C. **Restrictions and Prohibitions**

1. Except for U.S. Treasuries and Agencies, investments in a single issuer shall not exceed 2% of the **total** Domestic Program. For asset-backed securities, each separate trust (pool of assets) is defined as a separate issuer. For AAA rated mortgage-backed securities, CalPERS High Quality LIBOR, CalPERS Short Duration Program, and Short Term Investment Program, no single issuer limit exists.

2. Total non-investment grade securities shall not exceed a maximum of 20% of the **total** Domestic Program. Sub-sector limits are as follows:

a. Non-investment grade corporate securities must not exceed 15% of the total Domestic Program.

b. Non-investment grade mortgage securities must not exceed 10% of the total Domestic Program.

c. Non-investment grade sovereign securities must not exceed 5% of the total Domestic Program.

3. Section II.B.2 specifies the Interest Rate Risk parameters.

4. Section II B.5 specifies the Sector Risk parameters.

5. Non-investment grade collateralized bond, loan, or debt obligations (CBO/CLO/CDO) must not exceed a maximum of 5% of the total Domestic Program.

6. Tobacco company investments are prohibited.

7. Shorting will be limited to investment grade securities. Section III.A.1 governs the short selling of securities.

D. **Authorized Securities**

1. U.S. Treasury and Government Sponsored Securities including derivative securities whose deliverable instrument is a U.S. Treasury or government obligation, but excluding mortgages and mortgage-backed securities (MBS);

2. U.S. Publicly Traded Investment Grade Corporate Bonds;

3. U.S. Privately Placed Investment Grade Corporate Bonds;

4. U.S. Publicly Traded Investment Grade Mortgage-Backed Securities including derivative securities whose deliverable instrument or underlying collateral is a U.S. mortgage-backed security;

5. U.S. Privately Placed Investment Grade Mortgage-Backed Securities including single-family residences, commercial loans, and other privately placed mortgage-backed securities;

6. Investment Grade Asset-Backed Securities;

7. Investment Grade Global bonds;

8. Investment Grade Municipal bonds;

9. Investment Grade Preferred Stock;

10. Investment Grade Non-Dollar Bonds Hedged into U.S. dollars that are consistent with the Foreign Debt Policy (Attachment C);

11. Derivatives, subject to the requirements of Section III; and

12. Opportunistic Securities pursuant to Section IV.

III. DERIVATIVES AND LEVERAGE POLICY

A. Financial Futures, Swaps, and Options

All transactions involving derivatives and leverage are governed by CalPERS' Statement of Investment Policy for Development of Derivatives Strategies or CalPERS' Statement of Investment Policy for Derivative-External Money Managers (collectively "Derivatives Policies"). In addition to the restrictions defined in the Derivatives Policies, the following conditions apply:

1. Short selling of securities is allowed in the following areas:

    a. Financial futures and investment grade indices;

    b. Investment grade corporate securities or derivatives thereon where the actual cash position of any short securities plus the notional value of any derivatives is subject to a maximum limit of 5% of the total Domestic Program;

    c. Investment grade sovereign securities or derivatives thereon where the actual cash position of any short securities plus the notional value of any derivatives is subject to a maximum limit of 5% of the total Domestic Program;

    d. Investment grade mortgage securities or derivatives thereon where the actual cash position of any short securities plus the notional value of any derivatives is subject to a maximum limit of 2% of the total Domestic Program.

2. Leverage is prohibited except when using futures position. When purchasing financial futures, there must be an associated cash position which effectively creates a synthetic bond;

3. The Staff may buy or sell the following fixed income related derivatives: Credit Default Swaps (both on securities (CDS) and

indices (examples are CDX and ABX)), financial futures, options on financial futures, options on volatility, options on underlying securities, and options on securities indices, which includes over-the-counter options (as specified in Section II. D. 1.); and

4. Acceptable strategies include bona fide hedges (to help achieve the target durations or short positions that stay within the duration and sector range parameters set forth in Section II.B.2 and 5) and strategies that exploit the market's erroneous estimation of the volatility of interest rates. Other acceptable strategies include taking advantage of inaccurately priced instruments or using a more efficient method of implementing the investment objectives of the Domestic Program.

B. **Restrictions and Prohibitions**

1. Uncovered call writing is prohibited.

2. Speculation or arbitrage between two derivatives is prohibited. If a derivative is more attractively priced than the underlying security, the transaction is considered a substitution.

3. A maximum of 3% of the total Domestic Program may be invested in mortgage securities that are leveraged (e.g., inverse floaters).

C. **Counterparty Exposure for Options, Swaps and Futures**

1. The greater of $500 million or 25% of the total notional derivative exposure can be maintained with any one counterparty for non-exchange-traded derivatives (e.g., swaps, caps, floors, and options).

2. Transactions shall be executed with only domestic or non-U.S. brokers registered in the U.S. or the U.K. who have a short-term debt rating by at least two of the following three rating agencies:

   A1 (S&P) and P1 (Moody's), or F1 (Fitch Ratings), or rated on a long-term basis A3 (Moody's) A- (S&P), or A- (Fitch Ratings Services). The CalPERS internal research staff shall actively review these brokers.

IV. OPPORTUNISTIC INVESTMENTS

A. Securities or sub-asset classes, which are candidates for inclusion, shall have risk, return, and correlation profile sufficiently different from other sectors such that its inclusion or exclusion can affect the risk and return expectations of the Domestic Program. The criteria for inclusion into this classification shall include, but are not limited to:

1. Sufficient size, liquidity, and cost efficiency to allow a meaningful amount to be invested and have an impact on the total return.

2. Availability of sufficient internal or external investment and technical expertise to insure prudent implementation of an investment in that sub-asset class.

3. Presence of diversification, return enhancement, or some other readily identifiable attribute which is sufficiently different from other asset classes and which enhances the Domestic Program's ability to achieve the strategic objectives outlined in this Policy.

4. Acceptance by other large money managers or financial institutions as a viable and meaningful sub-asset class or in the absence of such acceptance, academic basis or foundation for its inclusion.

5. Availability of sufficient data, history, or expertise to assess the viability or benefit of the asset class to the Domestic Program and to have an investment outcome that is measurable from such an asset class. Further, the asset class must have a basis for developing expected investment return, risk, and correlations for purposes of the financial study.

B. A sub-asset class may be approved for investment provided that it meets the criteria above and that the Senior Investment Officer of Global Fixed Income has reviewed educational literature and other sources or both to fulfill fiduciary responsibility and has received approval by the Chief Investment Officer.

C. Permitted Opportunistic Investments

1. Non-Investment Grade Domestic and Hedged Non-Dollar corporate, including corporate zero coupon and PIK securities;

2. Leveraged and Un-leveraged Bank Loans;

3. Asset Based Loans;

4. Non-investment grade CBO/CLO/CDO securities;

5. Convertible Bonds;

6. CMO residuals;

7. Non-Investment Grade Dollar Denominated and Non-Dollar Global Sovereign Bonds hedged into U.S. dollars that are consistent with the Foreign Debt Policy (Attachment C);

8. Non-investment grade mortgage securities; and

9. Other sub-asset classes may be added if they fit Section IV, A and B.

Attachment B

EXTERNALLY MANAGED ACTIVE INTERNATIONAL FIXED INCOME PROGRAM

May 12, 2008

I. PERFORMANCE OBJECTIVE AND BENCHMARK

The performance objective for the Active International Fixed Income Program ("International Program") is to exceed the benchmark which is the Lehman Brothers International Fixed Income Index ("LIFI Index").

II. INVESTMENT APPROACHES AND PARAMETERS

A. Approach

1. The International Program shall be managed to:

   a. Maximize risk adjusted returns through the selection and allocation of permissible bond markets.

   b. Within those markets, manage the selection and allocation of maturities, durations, credits, currencies, and approved derivative instruments.

   c. Consider macro and relevant micro-economic factors including, but not limited to, economic growth, inflation, monetary and fiscal policy of permissible countries, the credit risk of market and issuer, and risk-adjusted yields.

2. The International Program shall be implemented through the retention of an external manager(s) ("Manager" or "Managers").

3. Each Manager shall operate under a set of manager specific guidelines that outlines its investment philosophy, representative portfolio characteristics, authorized and restricted securities and procedures, and strategic and performance objectives. All guidelines will be consistent with the Investment Parameters set forth in Section II.C.

4. The viability of the International Program shall be reviewed annually.

B. Specific Risk Parameters

1. Benchmark Risk was reviewed by the Consultant who determined that the LIFI Index is the appropriate reference point.

2. Interest Rate Risk must be managed by the Manager within ±35% of the index duration.

3. Yield Curve Risk must be managed by the Manager.

4. Credit Risk is managed by using specific credit limits. Minimum credit ratings for sovereign credit are specified in the Foreign Debt Policy (Attachment C).

5. Convexity Risk must be managed by the Manager.

6. Reinvestment Risk must be managed by the Manager.

7. Liquidity Risk is reduced due to CalPERS' strong cash flows.

8. Currency Risk will be controlled using the ranges below.

   The following table specifies ranges within which net currency positions may be taken:

   Net Currency Ranges Relative to the LIFI Index

Reserve Currency Benchmark Markets (EUR, JPY, GBP)	-30% - +30%
Other Benchmark Countries	-20% - +20%
Non-benchmark countries (ex USD)	-10% - +10%
U.S. dollar	-30% - +30%
Emerging Markets	-5% - +5%

Maximum cumulative long currency exposure	130%
Maximum cumulative short currency exposure	30%

   Note: The above ranges apply to individual currencies.

9. Sector Risk will be controlled using the ranges below. Managers are responsible for determining appropriate allocations based on market analysis.

   Sector Ranges- The following table specifies ranges within which allocations can fluctuate from benchmark weights:

Total International Program Weightings

Sector	LIFI Index	Permitted Net Ranges
Governments	100%	70% - 130%
Invest. Grade Corporate	0%	-30% - 30%
Mortgages	0%	0% - 30%
Non-Investment Grade Corporate	0%	0% - 10%

Note: The total of non-government securities cannot exceed 30% of the total International Program.

10. Country Risk will be controlled using the ranges below. Managers are responsible for determining appropriate country allocations based on market analysis.

    Net Country Permitted Ranges- The following table specifies ranges within which country allocations can fluctuate from benchmark weights:

Net Country Range Relative to Index

Reserve Currency Benchmark Markets (EUR, JPY, GBP)	-30% - +30%
Other Benchmark Countries	-20% - +20%
Non-benchmark countries (ex USD)	-10% - +10%
U.S. dollar	-30% - +30%
Emerging Markets	-5% - +5%

Note: The above ranges apply to individual countries.

C. Restrictions and Prohibitions

1. Emerging Market bond exposure is limited to ±5% of the benchmark weight on a Manager's combined holdings as well as a concentration limit of the benchmark weight ±5% of the benchmark weights on holdings of a single country.

2. Shorting non-investment grade bonds and U.S. mortgage backed securities is prohibited.

3. The maximum cash bond leverage is 130%. Foreign currency hedges are treated separately in calculating International Program leverage.

4. The maximum total International Program net short bond or currency position is 30%.

5. The International Program must comply with the Foreign Debt Policy, (Attachment C).

6. The maximum net long or net short holdings per corporate issuer is 3% of the total International Program.

D. Authorized Securities

1. Investment Grade non-dollar government, subnational governments (i.e. provincial, state, and municipal), and supranational.

2. Non-U.S. dollar and U.S. dollar publicly traded investment grade corporate bonds.

3. Non-U.S. dollar and U.S. dollar non-investment grade corporate securities rated BB- (S&P) or Ba3 (Moody's) or BB- (Fitch) or higher issued in major developed markets.

4. Non-U.S. dollar and U.S. dollar non-investment grade sovereign debt securities rated BB- (S&P) or Ba3 (Moody's) or BB- (Fitch) or higher issued in major developed markets.

5. U.S. Treasury and Government sponsored securities.

6. U.S. dollar Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) securities.

7. Structured products denominated in major developed currencies and the U.S. dollar, including but not limited to, ABS, ABL, and CDS.

8. Derivatives, subject to the requirements of Section III.

III. DERIVATIVES AND LEVERAGE POLICY

All transactions involving derivatives managed by external managers are governed by CalPERS' Statement of Investment Policy for Derivatives - External Money Managers, except that leverage and shorting will be permitted in accordance with this Policy as outlined in Sections II, B and C.

A. Permitted and Restricted Instruments

Managers may buy and sell the following derivatives: currency forward contracts, currency options, swaps, credit default swaps, structured notes, financial futures, options on financial futures, options on volatility, options on underlying securities, options on securities indices, including over-the-counter options.

B. Counterparty Exposure for Options, Swaps and Futures

1. A maximum 33% of the total notional derivative exposure can be maintained with any one counterparty for non-exchange traded derivatives (e.g., swaps, caps, floors, and options). An exception is allowed if total derivative exposure in the International Program is less that $100 million. Where netting agreements approved by CalPERS' Chief Investment Officer or his or her authorized designee are in place with the counterparty, only the net amount applies toward the $100 million limit.

2. Transactions shall be executed with only domestic or non-U.S. brokers registered in the U.S. or U.K. who have a short-term debt rating by at least two of the following three rating agencies:

   A1 (S&P) and P1 (Moody's), or F1 (Fitch), or rated on a long-term basis A- (S&P), A3 (Moody's), or A- (Fitch).

3. Counterparty creditworthiness shall equal or exceed "A3" as defined by Moody's or "A-" by S&P. The use of counterparties holding a split rating with one of the ratings below A3/A- is prohibited. Managers shall notify CalPERS if a counterparty is downgraded below A3/A- while an instrument held in the International Program is outstanding with that counterparty. The use of unrated counterparties is prohibited.

4. Any entity acting as a counterparty shall be regulated in either the United States or the United Kingdom.

C. Reporting Requirements

Managers shall prepare a monthly report to Staff for CalPERS outlining the following information:

1. The derivatives and the counterparties used and the market value, cost-value, gain or loss, notional exposure, and amount of exposure;

2. A description of the strategy and the expected outcome of the derivative use; and

3. The quantified impact to the International Program.

Attachment C

FOREIGN DEBT POLICY

May 12, 2008

Global Debt Issued by National Governments

The policy stipulations for global debt issued in major markets differ somewhat for externally managed holdings denominated in major non-dollar currencies and for internally managed holdings denominated in the dollar. The differences are found in the approach to limiting portfolio concentration in emerging markets, while minimum credit rating requirements are the same for both. The stipulations are as follows:

For both externally and internally managed programs, global bonds issued by national governments must have a credit rating of BB- or higher from S&P or Fitch, or Ba3 or higher from Moody's.

Holdings of global bonds are counted toward the aggregate limit of the benchmark weight +5% on an external Manager's combined holdings of emerging market debt and are subject to the benchmark weight +5% limit on holdings of a single country.

Local-Currency Debt of Foreign National Governments and All Foreign Debt of Corporations and Subnational Governments (i.e., Provincial, State, and Municipal)

1. Both the issuer and the issuer's national government (if the issuer is not the national government itself) must be rated investment grade, at least BBB- by S&P or Fitch, or Baa3 by Moody's. Even in the case of local-currency debt, this requirement must be satisfied by long-term foreign currency ratings instead of local-currency ratings, which are generally higher because a country can easily print more of its own currency to meet its local debt obligations. This unconventional, very conservative application of the rating requirement will give extra protection against the special foreign-exchange valuation and retrieval risks of local-currency debt.

2. The country must be part of the Lehman Global Aggregate Index, a widely followed index which includes only those local markets that are fairly liquid and fairly well developed.

3. The country's currency must be fully convertible in the spot market for foreign investors, so that managers may retrieve CalPERS' funds without limit or obstruction.

4. Holdings of local currency debt are subject to an aggregate limit of the benchmark weight +5% on a Manager's combined holdings of emerging market debt, as well as a concentration limit of the benchmark weight +5% on a Manager's holdings of a single country.